

## **European SRI Transparency Code**

The European SRI Transparency Code (the Code) focuses on SRI funds distributed publicly in Europe and is designed to cover a range of assets classes, such as equity and fixed income.

All information pertaining to the European SRI Transparency Code can be found at the following website: [www.eurosif.org](http://www.eurosif.org). The Code comes with a Guidance Manual for fund managers on how to best use and respond to the Code. The present version of the Code was approved by the Board of Eurosif on February 19, 2018.

### **REVISION OF THE CODE**

In 2017 the Code was updated to better reflect the continuing evolution of the European SRI market. A Working Group was set up to facilitate revision of the Code in line with the latest developments in the industry and in view of the latest work carried out by experts at the European and global level.

Applications to sign up to the Code will now be in line with key elements of the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), Article 173 of the French TECV Act and the latest recommendations made by the High-Level Group of Experts on Sustainable Finance (HLEG) in its final report published in January 2018. Questions that are specifically designed to reflect those recommendations/legislation are indicated in the Code with footnotes.

### **TWO KEY MOTIVATIONS UNDERPIN THIS CODE**

1. The opportunity for retail SRI funds to provide clarification to investors and other stakeholders about their SRI approach in an easily accessible and comparable format.
2. Proactive strengthening of self-regulation to contribute to the development and promotion of SRI funds by setting up a common framework for transparency best practices.

### **GUIDING PRINCIPLE**

Signatories to the Code should be open and honest and should disclose accurate, adequate and timely information to enable stakeholders, especially consumers, to understand the ESG policies and practices of the fund.

### **COMMITMENTS BY SIGNATORIES**

- The order and exact wording of the questions should be followed;
- Responses should be informative and clear, and the resources and methodologies used should be described in as much detail and as precisely as possible;
- Funds should report data in the currency that they use for other reporting purposes;
- Reasons preventing the fund from providing all or part of the information to a given question should be clearly stated and, in such cases, signatories should state when they will be able to answer the question;
- Responses should be updated at least on an annual basis and should have a precise publication date;
- Responses to the Code should be easily accessible from the website of the fund and/or of the fund manager. In any case, signatories should make it clear where to find the information required by the Code;

- Signatories are solely responsible for the answers to the questions, and should state this in their response.

### **Statement of Commitment**

*Complete/modify the below section accordingly*

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of Federated Hermes. We have been involved in SRI since 1983 and welcome the European SRI Transparency Code.

This is our first statement of commitment and covers the period 1<sup>st</sup> July 2022 to 30th June 2023. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

### **Compliance with the Transparency Code**

Federated Hermes Limited is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. Federated Hermes Limited meets the full recommendations of the European SRI Transparency Code.

**7th July 2022**

### **Eurosif classification of Sustainable and Responsible Investment<sup>1</sup> strategies**

**Sustainability Themed Investment:** investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability Themed Investments inherently contribute to addressing social and/or environmental challenges, such as climate change, eco-efficiency and health. Funds are required to perform an ESG analysis or screening of investments in order to come under this category.

**Best-in-Class Investment Selection:** approach according to which leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria. This approach involves the selection or weighting of the best-performing or most improved companies or assets as identified by ESG analysis within a defined investment universe. This approach includes best-in-class, best-in-universe and best-effort.

**Norms-Based Screening:** screening of investments according to their compliance with international standards and norms. This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies, such as the United Nations (UN).

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1 Sustainable and responsible investment ("SRI") is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors and to benefit society by influencing the behaviour of companies. Ref. Eurosif 2016

**Exclusion of Holdings from Investment Universe:** an approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors or countries. This approach systematically excludes companies, sectors or countries from the permissible investment universe if they are involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be imposed at the individual fund or mandate level, but also increasingly at the asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical or values-based exclusion, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

**Integration of ESG Factors into Financial Analysis:** the explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This category covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

**Engagement and Voting on Sustainability Matters:** engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process that seeks to influence behaviour or increase disclosure. Engagement and voting on corporate governance are necessary, but are not sufficient in themselves for inclusion in this category.

**Impact Investing:** impact Investments are investments in companies, organisations and funds with the intention of generating a social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market-to-market rate, depending upon the circumstances<sup>2</sup>. Investments are often project-specific and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investing includes microfinance, community investing, social business/entrepreneurship funds and French *fonds solidaires*.

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1. List of funds covered by the Code

Name of the fund(s): Biodiversity Equity Fund					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as at 31 December	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment section <input checked="" type="checkbox"/> Engagement & Voting <input type="checkbox"/> ESG Integration <input type="checkbox"/> Exclusions <input checked="" type="checkbox"/> Impact Investing <input type="checkbox"/> Norms-Based Screening <input type="checkbox"/> Leading to exclusions <input type="checkbox"/> Leading to risk management analysis/engagement <input type="checkbox"/> Sustainability Themed	<b>Passively managed</b> <input type="checkbox"/> Passive investing – core benchmark: specify the index tracking <input type="checkbox"/> Passive investing – ESG/SRI benchmark: specify the index tracking  <b>Actively managed</b> <input type="checkbox"/> Shares in a euro area country <input type="checkbox"/> Shares in an EU country <input checked="" type="checkbox"/> International shares <input type="checkbox"/> Bonds and other debt securities denominated in euro <input type="checkbox"/> International bonds and other debt securities	<input checked="" type="checkbox"/> Controversial weapons <input checked="" type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input type="checkbox"/> Arms <input checked="" type="checkbox"/> Nuclear power <input type="checkbox"/> Human rights <input type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input checked="" type="checkbox"/> Pornography <input type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation <input type="checkbox"/> CO2 intensive (including coal) <input type="checkbox"/> Genetic engineering <input type="checkbox"/> Other (please specify)	To be filled out with a number of AuM  the fund was launched in March 2022. AUM as at 31 March 2022 was: \$22.7m	<input type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	- (KIID?) - Prospectus - Management report - Financial and non-financial reporting - Corporate presentations - Other (please specify)

	<input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> Global Compact <input type="checkbox"/> OECD Guidelines for MNCs <input type="checkbox"/> ILO Conventions <input checked="" type="checkbox"/> Other (please specify) <b>GMO crop production; electricity utility companies with a carbon intensity that are not aligned with a below 2 degrees scenario; companies that generate over 5% of their revenues from the extraction or exploration of fossil fuels or from the use of fossil fuels for electricity generation.</b>			
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## 2. General information about the fund management company

### 2.1. Name of the fund management company that manages the applicant fund(s)

Hermes Fund Managers Ireland Limited is the manager and delegates this to Hermes Investment Management Limited. Both of these entities are wholly owned by Hermes Fund Managers Limited, which is a subsidiary of Federated Hermes PLC. Website link for Federated Hermes PLC is as follows:

<https://www.federatedhermes.com/>

<https://sustainability.hermes-investment.com/uk/en/intermediary/>

## 2.2. What are the company's track record and principles when it comes to integrating SRI into its processes?

Ever since the international business of Federated Hermes was created in 1983, our purpose has been to provide Sustainable Wealth Creation: generating wealth through investments that enrich investors, society and the environment over the long term. From day one through to today, this purpose drives everything we do.

We believe that through a combination of high-active-share investing, best-in-class ESG integration, and effective stewardship, which is clearly defined and overseen by our dedicated and innovative Responsibility Office, we will be able to produce excellent long-term investment performance, while improving the lives of many. Since 1983, we have aimed to generate sustainable outcomes for investors through our unique investment approach:



We pursue this goal through a holistic approach to investing that incorporates environmental, social and governance considerations into all of our investment products. We believe that our ability to mitigate ESG risks and capture investment opportunities arising from these considerations is essential to achieving consistent investment outperformance for our clients.

Further details of our approach to sustainability can be found on our website at: [Home | Sustainability | Federated Hermes \(International\) \(hermes-investment.com\)](https://hermes-investment.com/Home/Sustainability)

## 2.3. How does the company formalise its sustainable investment process?

[Policies & Disclosures | Federated Hermes \(International\) \(hermes-investment.com\)](https://hermes-investment.com/Policies%20and%20Disclosures)

In line with good corporate governance practice, the Federated Hermes' board sets the company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives and reviews and holds management accountable for performance within a framework of prudent and effective controls, which enables risk to be assessed and managed. The board also sets the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

While the responsibility for implementing our approach resides with all personnel, we have a number of structures, teams and governance processes that ensure that, across the firm, we discharge our responsibilities in a consistent and effective manner.

**Investment Office and Portfolio Review Committee.** Our Investment Office, which reports directly to our CEO, acts as an independent oversight body across all our investment teams. A key element of

this is the monthly Portfolio Review Committee, which monitors in detail the performance and risk within each fund and strategy and challenges investment teams.

**Responsibility Working Group.** Constituted of senior representatives from across the business and chaired by our Head of Responsibility, who reports directly to our CEO, it is charged with reviewing and recommending policy for decision by our Executive Committee in respect of all matters pertaining to the delivery of holistic returns.

**Dedicated Responsibility Office.** Ensures that responsibility is embedded throughout the business. This extends to international business of Federated Hermes' approach to its own governance and practices, as well as the integration of engagement and ESG factors into investment strategies and processes.

**ESG Policy** Our responsible investment approach has been expressed through a number of policy guidelines and principles, both at the corporate level and by our stewardship and investment teams. These include our Responsible Ownership Principles, which seek to create a common understanding between boards, managers and owners of the proper goals of a public company; and Delivering Holistic Returns, which explains our strategy and approach to acting as a responsible investor, stewardship practitioner and firm.. Complementing these global principles, we have also developed specific corporate governance guidelines for 22 major countries. These guidelines take into account the regulatory and legal context of a country as well as corporate governance best practice.

- Responsible Ownership Principles:

<https://www.hermes-investment.com/wp-content/uploads/2018/10/final-responsible-ownership-principles-2018.pdf>

- Delivering Holistic Returns

<https://www.hermes-investment.com/ukw/wp-content/uploads/2019/10/hermes-delivering-holistic-returns-2019.pdf>

- Regional corporate governance guidelines:

<https://www.hermes-investment.com/ukw/stewardship/eos-literature/>

The Responsible Ownership Principles sets out our expectations for the companies we invest in on our clients' behalf and covers the below points:

- Transparency and communication
- Corporate culture
- Strategy
- Financial disciplines, structure and risk management
- Stakeholders, environmental and social issues
- Governance

By being explicit about appropriate expectations, we aim to create a better framework for communication and dialogue between boards and management on the one hand, and shareholders on the other hand. This can contribute to better management of companies and ultimately the sustainable creation of wealth for their shareholders. The Principles were updated in 2010 to include lessons from the financial crisis.

Furthermore, we publish our Global Voting Guidelines and Engagement Policy on our website:

<https://www.hermes-investment.com/ukw/wp-content/uploads/2021/03/ifh-corporate-global-voting-policy-and-guidelines-03-2021.pdf>

<https://www.hermes-investment.com/ukw/wp-content/uploads/2021/04/fhi-corporate-engagement-policy-03-2021.pdf>

#### **2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company? <sup>3</sup>**

We recognise that ESG integration necessitates different considerations at various stages in the investment process, alongside other financial factors. In particular, it puts great store in drawing on its strong stewardship capabilities, through which it identifies specific risks within its investments and engages to mitigate them.

Each investment team has formulated their own ESG integration plan that explains how, in the context of their particular strategy and investment universe, they incorporate ESG factors within their investment process. In general, investment teams supplement their own fundamental financial analysis with information provided through a range of proprietary ESG tools, qualitative analysis and the insights gleaned through company engagement. Of particular note are the firm's ESG Dashboard, QESG Score and the Portfolio Snapshot, which are used to identify ESG risks and opportunities and to guide security selection. We use these tools across all of our public market investments.

- ESG Dashboard. The ESG Dashboard centralises engagement data and information from EOS, including controversy insights and voting activity, as well as from CDP, MSCI, Sustainalytics, Trucost, FactSet and Bloomberg. It helps the investment teams to discern the source and magnitude of the risk and compare companies against peers by sector, region or globally using customisable ESG-specific and industry-specific criteria.

This amalgamation of the different sources allows companies to be assessed across many metrics and highlights industry-specific key performance indicators. The Dashboard, however, only provides an overview. Analysts supplement this with their own fundamental analysis, which is supported by regular interaction with the engagement team.

- QESG Score. we base our QESG Score – a company's relative ranking based on its ESG risk management and the trend in its exposure to these risks – on engagement data from EOS, as well as data from CDP, MSCI, Sustainalytics, Trucost, FactSet and Bloomberg. This data includes indicators of impact, energy efficiency, fatalities, health and safety, controversies etc., and the scoring weighs governance performance more than environmental or social performance.

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<sup>3</sup> Reference to Article 173 of the French TECV Act and the TCFD recommendations (risks and opportunities section)



- **Portfolio Snapshot.** The Portfolio Snapshot helps the investment team to view ESG risk exposure across the entire portfolio and to report on the ESG features of each security in both absolute and benchmark-relative terms. Particularly as it pertains to risk management, we believe that identifying change in ESG exposure is equally as important as determining the absolute level of risk and, as such, the Portfolio Snapshot allows us to identify the strongest and weakest ESG performers against a variety of ESG metrics and to regularly assess changes in ESG criteria.

We also maintain a Controversial Company Report, which highlights any company governance concerns or breaches of human and labour rights and international conventions.

### **Carbon risk**

In recognition of the growing risk posed by climate change, as well as the opportunities inherent in the transition towards a less carbon-intensive world, we have developed tools to enable our fund managers and engagement analysts to form a holistic view of a company and their portfolios. Investment teams can see in real-time and in detail the level and intensity of carbon risk across their portfolios, which portfolio companies are the greatest emitters, and where to target engagement activity. They are also able to see the progress of their ongoing engagement towards mitigating the risk and a range of valuation implications. The ability to test ‘what-if’ scenarios ensures they remain mindful of the impact their investee companies have on the world around them, in addition to the opportunity or risk of the investment.

We are committed to engaging with all of the highest emitting companies across each of our public markets portfolios in order to drive up disclosure levels, promote scenario testing and ensure operations are as energy efficient as is practicable. Additionally, we have actively managed down the energy efficiency of our real-estate assets for many years with detailed disclosures provided annually of performance against targets. We are members of, among other initiatives, the Portfolio Decarbonisation Coalition, the Aiming for A coalition of investors and the Institutional Investors Group on Climate Change. In our public policy engagement with the UK and European governments we call for a clear policy framework to enable the scaling up of low carbon and energy efficiency investments. In addition to our ISO 14001 accreditation and in continuation of our corporate citizenship policy, we offset our own carbon emissions by partnering with Trees for Cities. We publish our carbon risk management strategy on an annual basis and in support of the FSB Taskforce for Climate- Related Financial Disclosures (TCFD) recommendations will be enhancing the level of relevant public disclosures we provide as a firm.

### **EOS at Federated Hermes**

The investment teams also benefit from the expertise of our specialist in-house stewardship team, EOS at Federated Hermes (EOS), which was established in 2004 and boasts one of the largest stewardship resources globally, composed of an effective group of highly and diversely skilled, multi-national professionals, all committed to influencing leading businesses on governance and sustainability matters. EOS alerts investment teams to any ESG issues affecting companies in their portfolios and votes at the general assembly meetings. This enables the investment teams to incorporate corporate social performance and responsibility considerations into their investment

process in a seamless, complementary and risk-aware manner, and further strengthens the alignment and transparency with our clients.

As mentioned above, we aim to be ESG aware and actively incorporate relevant considerations into our investment process across **all strategies and asset classes**. Having a focus on each of responsible investing, responsible ownership and policy advocacy across all of our strategies, while also behaving responsibly as a firm, is, we believe, integral to delivering holistic returns. Behaving as a responsible business ourselves is critical to giving us the credibility with which to be able to fulfil these ambitions.

## **2.5 How many employees are directly involved in the company's sustainable investment activity?**

Federated Hermes Limited has a number of dedicated teams and personnel across the business that contribute to achieving our goal of integrating responsibility into everything that we do. As at 31 March 2022, this totals 70 personnel.

While the responsibility for implementation resides with all personnel, the integration programme is overseen by a dedicated Responsibility Office, independent from the investment teams, which includes the Head of Responsibility and seven additional members that are responsible for coordination and execution. The Head of Responsibility reports to our CEO and meets monthly with the Executive Committee to report on implementation progress.

Each of our investment teams meet formally with the Head of Responsibility on a quarterly basis to discuss progress in their integration activities. The Head of Responsibility also liaises closely with product development, business development and other relevant teams to develop and implement a comprehensive programme to ensure our responsibility approach and activities are integrated seamlessly in our funds and stewardship services.

EOS at Federated Hermes (EOS) is our independent, dedicated team of leading governance and engagement experts. Established over 16 years ago, EOS helps provide the necessary analysis and active ownership of companies on behalf of our investment teams and external asset owners. They represent over \$1.2trn of assets for which they provide proxy votes, policy submissions and discussions, and aim to improve sustainability practices at companies. EOS also provides our investment teams with detailed research on ESG factors that they can assimilate into their research on individual companies.

The investment teams hold monthly meetings with EOS to have an in-depth discussion of their engagement aims and progress, which helps the investment teams understand the challenges, opportunities and risks of a company, sector or theme from an ESG perspective. This is in addition to the informal discussions between EOS and the investment teams on existing or potential investments that takes place daily. These discussions play a very useful role in helping confirm an investment idea from a subjective standpoint.

Furthermore, investment teams have dedicated ESG specialists. For example, the Global Equities team has its own ESG specialist in portfolio manager Louise Dudley, who has been with the company since 2009, initially working in EOS. We also have two dedicated engagement resources within our investment teams. Will Pomroy is the lead engager for the SDG Engagement Equity strategy and Aaron Hay is lead engager for the SDG Engagement High Yield Credit strategy. The engagement activity for these strategies – from engagement plan, identification of SDG opportunities, company

analysis, setting SDG-related objectives to plan execution, monitoring and reporting – is overseen by the respective dedicated lead engager.

## **2.5. Is the company involved in any RI initiatives?**

Yes. At the international business of Federated Hermes we believe it is our responsibility to lead and participate in discussion and debate about the fiduciary responsibilities of institutional investors to their clients, their stakeholders and ultimately, society at large. In a similar vein we have a proud history of leading thinking around corporate governance and the purpose and responsibilities of companies and their directors towards both their shareholders and wider stakeholders. Ultimately, it is our belief that the financial system should operate in the interests of its ultimate beneficiaries.

That is why, in addition to the thought-leadership work we do directly as a firm, we actively contribute to a wide variety of investor associations and collaborative initiatives. Of particular importance is the Principles for Responsible Investment (PRI), for which we chaired the drafting committee and were a founding signatory. In addition, our Chief Executive founded the 300 Club in 2011, an independent group of leading investment professionals from across the globe, in order to respond to an urgent need to raise uncomfortable and fundamental questions about the very foundations of the investment industry and investing. In addition to relevant trade associations, we have supplied below a list of the key bodies that the international business of Federated Hermes is actively involved with.

300 Club <i>Founder of in 2011 and chaired until 2014</i> <i>Provide pro bono support and coordination</i>	International Integrated Reporting Council <i>Council Member since 2011</i>
Aiming for A Investor Coalition <i>Member since 2015</i>	International Corporate Governance Network <i>Board Governance Committee member</i> <i>Shareholder Responsibilities Committee member</i>
Banking Standards Board <i>Board member since 2015</i>	Institutional Investors Group on Climate Change: <i>Chair of property working group</i> <i>Member of policy working group</i>
Better Buildings Partnership <i>Member since 2008</i>	InvestEurope, representing Europe's PE, VC and infrastructure sectors <i>Member of Reporting and Valuation Committee</i>
British Property Federation <i>Board member and former president</i>	Principles for Responsible Investment <i>Founding signatory in 2006</i> <i>Member of various Advisory Committees</i>
CDP <i>Investment member since inception 2015</i>	Sustainability Accounting Standards Board <i>Member since 2019</i>
CFA - Future of Finance Advisory Council <i>Since 2013</i>	UK Investor Forum <i>Since inception in 2016</i>
Council of Institutional Investors <i>Member of Corporate Governance Advisory Council</i>	UK Sustainable Investment and Finance Association <i>Since 2012</i>
Eumedion <i>Member of their Investment Committee</i>	UN Environment Finance Initiative <i>Global Steering Committee Member</i> <i>Member of UNEP FI Investment Committee</i>
Global Infrastructure Investors Association (GIIA) <i>Member since 2016</i>	UN Global Compact <i>Joined in 2017</i>

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives
<input type="checkbox"/> ECCR – Ecumenical Council for Corporate Responsibility <input type="checkbox"/> EFAMA RI WG <input type="checkbox"/> European Commission's High-Level Expert Group on Sustainable Finance <input type="checkbox"/> ICCR – Interfaith Center on Corporate Responsibility <input type="checkbox"/> National Asset Manager Association (RI Group) <input type="checkbox"/> PRI - Principles For Responsible Investment <input type="checkbox"/> SIFs - Sustainable Investment Fora <input type="checkbox"/> Other (please specify)	<input type="checkbox"/> CDP – Carbon Disclosure Project (please specify carbon, forest, water etc.) <input type="checkbox"/> Climate Bond Initiative <input type="checkbox"/> Green Bond Principles <input type="checkbox"/> IIGCC – Institutional Investors Group on Climate Change <input type="checkbox"/> Montreal Carbon pledge <input type="checkbox"/> Paris Pledge for Action <input type="checkbox"/> Portfolio Decarbonization Coalition <input type="checkbox"/> Other (please specify)	<input type="checkbox"/> Access to Medicine Foundation <input type="checkbox"/> Access to Nutrition Foundation <input type="checkbox"/> Accord on Fire and Building Safety in Bangladesh <input type="checkbox"/> Other (please specify)	<input type="checkbox"/> ICGN – International Corporate Governance Network <input type="checkbox"/> Other (please specify)

## 2.6. What is the total number of SRI assets under the company's management?

At Federated Hermes Limited we aim to be ESG and impact aware and actively incorporate relevant considerations into our investment processes across all strategies and asset classes. As at 31 March 2022, our specialist, high conviction investment teams manage £42.0bn (\$57.9bn / €49.3bn) across equities, credit, infrastructure, private equity, private debt and real estate.

A full range of our funds can be found at the below link:

<https://www.hermes-investment.com/ukw/products/>

## 3. *General information about the SRI fund(s) that come under the scope of the Code*

### 3.1. What is (are) the fund(s) aiming to achieve by integrating ESG factors?

The investment objective of the fund is to generate attractive long-term capital appreciation, outperforming equity markets over the long term, through the selection of companies that provide an innovative solution to unmet needs in society, thereby delivering positive social and environmental impacts alongside attractive financial returns.

The Biodiversity team considers ESG matters as part of their fundamental analysis of all companies. The analysis feeds into their allocation decisions, which are focused on risk-adjusted returns. This extra integration enables the team to incorporate ESG considerations into their bottom-up investment

process in a seamless, complementary and risk-aware manner, and further strengthens the alignment and transparency with our clients. Additionally, our investments are aligned with six biodiversity themes that are linked with SDGs, including deforestation, unsustainable living and climate change. Our biodiversity themes are the result of careful, continuous research into the global sustainability challenges we face and the unmet needs these create. We believe that these unmet needs provide tremendous growth opportunities for companies able to provide disruptive solutions through innovative and cost-effective products and services. The themes are regularly discussed within the team, but also take output from EOS and our Responsibility Office, as well as experts on sustainability from our Real Estate, Infrastructure and Private Equity teams. These are supplemented by a wide network of relationships with external organizations focused on impact and research providers.

The fund is the natural extension of our longstanding commitment to responsible investing and our leading work in stewardship through EOS at Federated Hermes and offers a way to meaningfully support delivery on the widely agreed UN Sustainable Development Goals (SDGs) for 2030.

### **3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?**

#### **Internal**

The Impact & Sustainable Investing team is led by Ingrid Kukuljan, Head of Impact & Sustainable Investing and is the lead portfolio manager for the strategy. Martin Todd is a senior portfolio manager on the team and has been with the firm since March 2013. Jordan Patel is a senior analyst who provides company-specific and thematic research, including analysis of SDG-related themes for incorporation into investment appraisals. Tej Sthankiya, also a senior analyst, recently joined the team and has similar responsibilities to Jordan. Tom Firmin, who joined the team from the European Equities team, is an analyst covering all sectors and themes. Touiti Marie-Bornand joined the team most recently as an analyst and will also cover all sectors and themes.

For this strategy, the team also benefits from the expertise of EOS lead engager, Sonya Likhtman. Her thematic expertise includes climate change, biodiversity and board effectiveness. Sonya is the author of a white paper, *Our Commitment to Nature*, that outlines EOS' expectations of sectors with high biodiversity impacts and dependencies. She is currently the co-chair of both the engagement and public policy working groups within the Finance for Biodiversity Foundation

All members of Impact & Sustainable Investing team undertake company research and contribute investment ideas to the portfolios managed by the team.

The team is further supported by Paul Dalton, Investment Associate Director, who supports the team for client-related activities.

The Biodiversity team leverages the research conducted by 100+ investment professionals across the international business, and there is a significant crossover of holdings within the portfolio across our specialist equities strategies.

The origination of the idea may come from an emergent impact or sustainability theme or a company-specific insight. The vast majority of the exchange of ideas is done in open and continuous dialogue

between the portfolio managers, utilising the significant resource of our global, European, US, emerging markets and Asia ex-Japan equities teams, and vigorous debate on new ideas and existing holdings is actively encouraged.

The investment approach involves a thorough investigation of each company and their operating environment, in order to be able to reflect on the long-term investment horizon. Each new name has to be approved by Ingrid Kukuljan. This sets a deliberately high barrier to entry of new names into the portfolio.

The team can rely on excellent internal ESG research tools developed over the years by the Global Equities team and EOS:

- The ESG Dashboard ensures that all companies (subject to the availability of the data) can be compared against their peers on a sector, regional or global basis with respect to a range of ESG considerations.
- The QESG Score identifies stocks with positive ESG characteristics and/or stocks demonstrating positive change. Proprietary data generated internally, as well as best-of-breed ESG data sources as detailed above. The QESG Score processes these data sources through a model created by the Global Equities team, leveraging their modelling expertise, with an emphasis on the trend in ESG performance. In late 2017, the Global Equities team updated the ESG Dashboard with the addition of individual metrics. These changes, which reflect recent developments within ESG investing and the availability of information, include the alignment with the UN SDGs which will decompose a company's revenue across the 17 SDGs.
- All teams also use the Portfolio ESG Snapshot, which offers a portfolio perspective on ESG exposures. This tool reports on ESG characteristics of portfolio holdings both in absolute and benchmark-relative terms and includes voting and engagement data from EOS.
- The Carbon Tool allows fund managers to assess their fund's carbon performance, carbon risk, and corresponding engagements with investee companies in a comprehensive manner. The carbon tool assesses and integrates the following four key elements, making it a cutting-edge approach in evaluating the impact that investment funds have on the environment.

The team works alongside our stewardship team, EOS, who directly advise companies on how best to report on their sustainability performance.

#### **External**

- The team supplements proprietary data with external research from providers including Trucost, MSCI Research and Sustainalytics to identify stocks that could potentially have an attractive biodiversity profile. The team looks at revenue thresholds and capital expenditure in sustainable products and services. They also use more traditional ESG screens to make sure companies not only have a potentially attractive exposure to the UN SDGs, but also operate in a sustainable way and reduce negative externalities that may undermine their mission.
- We manage our voting via a partnership with proxy advisory firm ISS. We benefit from the additional research and vote processing service ISS provide. The research received is, however, only one of several inputs we utilise in reaching a judgement and making voting recommendations to clients.
- Data is also sourced from CDP, WRI, Factset and the World Bank.

### **3.3. What ESG criteria are taken into account by the fund(s)?**

The team has established a thematic framework consisting of six themes identified as having the greatest direct impact on biodiversity: **land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, and deforestation.**

Each theme is made up of one or more industry sub-vertical themes that in turn correspond to at least one of the UN SDGs. The strategy's initial investment universe will consist of all the companies within each of the industries that fall into each of these sub-vertical themes.

For example, the unsustainable farming theme breaks down into three discrete industry sub-vertical themes: *pasture farming, arable farming and olericulture & pomology*. Industries such as meat alternatives and animal health products fall within the *pasture farming* sub-vertical theme. Thus, all the companies that fall within these two industries will form part of the initial investment universe for the strategy.

In total, this thematic framework surfaces around 1,000 companies that align with at least one of the six themes and their related industry sub-vertical themes and that in turn constitute the strategy's universe.

#### *Environmental Ratings Screen:*

The team then seeks to understand which stocks are environmental leaders and will utilise screens such as the environmental scores of companies to try and unearth new investment ideas. Please note that the team does not screen out stocks solely on the basis of environmental scores given that newer, less mature companies typically have lower scores due to lack of disclosure. Instead, engagement is used as a tool to supplement the team's understanding of these companies' environmental profiles.

#### *Engagement & Company Meetings.*

The team also takes time to meet companies to better understand their businesses and the latter's relevance to biodiversity. They try to meet with senior management, as well as with operational management and the board of directors to get a more rounded and objective view. They will also meet with other companies within the industry to understand competitors, suppliers and customers, with regular attendance at investment conferences supporting this process.

During these initial meetings with companies, establishing whether effective and sustained engagement is possible is a key component in surfacing potential investment ideas for further analysis. Integrated and collaborative active engagement is a key element of the team's investment process and is used to maximise the impacts that companies deliver. It encourages companies' delivery of their best possible ESG characteristics and positive impacts, whilst supporting the monitoring of progress towards alleviating negative externalities.

#### *Biodiversity Assessment*

The team investigates each company's impacts and dependencies on biodiversity. They look to develop a thesis for how a company is having a clear positive impact on biodiversity through reducing biodiversity loss from operations and/or providing solutions to help prevent loss or help restore biodiversity. They also seek to establish whether biodiversity and ecosystem services are relevant to the business and investigate where and how the company is dependent on nature and what risks are associated with these dependencies.

The team will create a detailed biodiversity note, outlining the business, highlighting the biodiversity theme(s) which the company is helping towards and including a detailed explanation of the biodiversity thesis for the company. A final section is also included highlighting areas for engagement with the company that will be discussed with and elaborated by the dedicated engager.

Once the team has gained sufficient comfort of the strength in biodiversity thesis, the company can undergo a more traditional financial assessment.

The validation of the long-term sustainability of a company is the final element of the team's process. The team evaluates the ESG profile of companies by carrying out their own fundamental ESG assessment of companies. The team focuses on nine key aspects:



## Environmental

- Climate change (captures pollution and waste)
- Water
- Biodiversity (captures natural resource stewardship, e.g., sustainable food systems)



## Social

- Human rights and labour
- Employee turnover/health and safety
- Conduct and culture (captures anti-bribery act, AI and data governance, i.e., cybersecurity)



## Governance

- Board composition
- Executive remuneration (not purely about level of pay but also structure and how pay package aligns with investors)
- Shareholder rights and protection (e.g., dual share classes, voting rights)

The team has at their disposal a set of proprietary ESG tools to support this analysis. These include an ESG Dashboard (which incorporates our proprietary QESG score), the Portfolio Snapshot (for a holistic view of ESG characteristics at portfolio level), a Carbon tool (which measures carbon emissions in several ways), the Corporate Governance tool (to support the analysis of “G” factors) and the recently launched Environmental tool (which focuses on environmental metrics). We are also in the process of developing a Climate Change tool that will look at transition and physical risks to feed into the team and other investment team’s investment processes.

### **3.4. What principles and criteria linked to climate change are taken into account in the fund(s)?<sup>4</sup>**

Biodiversity offers critical mitigation against climate change since forests, peatlands and grasslands are natural carbon sinks that absorb and store carbon dioxide; protecting and restoring these ecosystems is considered the second most effective means of mitigating climate change after switching out of using fossil fuels.

We believe that companies that include biodiversity within their business strategies and/or as part of the risk mitigation strategies should have better long-term risk adjusted profiles, given the huge systemic risk biodiversity loss poses to the world. With increasing awareness and regulation around biodiversity, companies providing solutions to reduce harm and protect biodiversity, or leading the way to do so through their operations, should benefit from material tailwinds, such as increased spending by governing bodies and the private sector as the theme comes further into focus. Of course, the investment strategy is, by design, not invested in the major contributors to climate change, which the team would not invest in. This means that we believe that our portfolio carries little business model transition risk, and in particular very little stranded asset risk.

Any scenario for limiting global warming to 2 degrees Celsius, or 1.5 degrees would require a significant acceleration in investments in renewable energy, such as wind power and solar, a step up

4 Reference to Article 173 of the French TECV Act see paragraphs 3 and 4 of Article D.533-16-1 of Chapter III of the French Legal Code):

<https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006072026&idArticle=LEGIARTI000031793697>



in energy efficiency measures, and a move towards more recycling of materials. The team believes that the Biodiversity fund should benefit from such measures through its exposure to companies that provide solutions, such as renewable energy, circular economy and energy efficiency.

Beyond product contributions, climate change carries significant physical risks to companies' assets. This is an area that remains difficult to assess clearly, although our Responsibility team has started to develop tools to understand those risks better. We have a proprietary portfolio carbon footprinting tool, built using both Trucost data and our own estimation models, and using our own portfolio analytics. This tool gives the scope 1, 2 and 3 carbon intensity of the portfolio, scaled both by assets and by revenues; provides an analysis of trends; provides an analysis of outliers that may deserve further review and/or engagement. We have also developed a tool using geographical asset location data, overlaid with physical climate risk maps such as sea level rise, storms, droughts, water stress and landslides; although this tool is still in development, and that asset location data availability is limited, this is showing promising early results.

Engagement is also a key part of our approach and the strategy benefits from the expertise of a dedicated EOS lead engager whose thematic expertise includes climate change, biodiversity and board effectiveness. For instance, we have been engaging with Deere & Co who have measured material Scope 3 emissions and set a goal to reduce these by 30% by 2030.

We have a proprietary portfolio carbon footprinting tool, built using both Trucost data and our own estimation models, and using our own portfolio analytics. This tool gives the scope 1, 2 and 3 carbon intensity of the fund, scaled both by assets and by revenues; provides an analysis of trends; provides an analysis of outliers that may deserve further review and/or engagement. We have also developed a tool using geographical asset location data, overlaid with physical climate risk maps such as sea level rise, storms, droughts, water stress and landslides; although this tool is still in development, and that asset location data availability is limited, it is showing promising early results.

### **3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?**

The investment process begins with the wider listed equities universe, represented by the MSCI ACWI Investible Market Index (IMI) which consists of over 8,000 companies. An initial screen is undertaken to narrow down this universe to circa 5,000 companies by eliminating companies that the team have identified as unsuitable for investment given the strategy's investment objective. These include:

- Companies that generate over 5% of their revenues from the extraction or exploration of fossil fuels or from the use of fossil fuels for electricity generation;
- Electricity utility companies with a carbon intensity that are not aligned with a below 2 degrees scenario;
- Companies that generate revenue from the production of controversial weapons and companies that generate over 5% of their revenues from production of conventional weapons;
- Companies that generate over 5% of their revenues from nuclear power;
- Companies that generate revenues from the production of tobacco products and companies that receive over 10% of their revenues from tobacco distribution;
- Companies that generate over 2% of their revenues from gambling products;

- Companies that generate over 2% of their revenues from adult entertainment products
- Companies that generate over 2% of their revenues from the production of alcohol and companies that receive over 5% of their revenues from alcohol distribution; and
- Companies that generate over 5% of their revenue from GMO crop production.

Thematic research complemented by an environmental ratings screen, company meetings and intelligence from the firm's engagement activities is then used to build a watchlist of companies that are candidates for further detailed research. This process is described in further details below.

#### *Thematic Research:*

The team has established a thematic framework consisting of six themes identified as having the greatest direct impact on biodiversity: **land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, and deforestation.**

Each theme is made up of one or more industry sub-vertical themes that in turn correspond to at least one of the UN SDGs. The strategy's initial investment universe will consist of all the companies within each of the industries that fall into each of these sub-vertical themes.

For example, the unsustainable farming theme, illustrated below, breaks down into three discrete industry sub-vertical themes: *pasture farming, arable farming and olericulture & pomology*. Industries such as meat alternatives and animal health products fall within the *pasture farming* sub-vertical theme. Thus, all the companies that fall within these two industries will form part of the initial investment universe for the strategy.

[5] Farming		15.5	15.2
> Deforestation Is one of the largest drivers of Biodiversity loss, as it is the direct destruction of the habitable natural environment			
> Furthermore, deforestation is increasingly occurring in highly biodiverse areas: Brazilian Rainforest (Amazon / Cerrado) and South East Asia (Philippines / Indonesia), Sub Saharan Africa (Nigeria)			
> As there are numerous drivers of deforestation I tackle each through a separate theme			
> Three discrete Sub Themes within Farming:			
> <b>Pasture Farming:</b> The direct threat to Biodiversity caused by deforestation - for land use as habitable space for pasture animals			
> <b>Arable Farming:</b> This theme is two separate "threats"			
> <b>[A] Direct:</b> The direct threat to Biodiversity caused by deforestation - for land use to grow arable crops (grain / soy / wheat)			
> Some of this indirectly contributes to theme 5, particularly Soy crops, 80% of which are used to feed Pasture Livestock			
> <b>[B] Indirect:</b> The secondary effect of over-farming on soil fertility and eventual desertification			
> <b>Olericulture &amp; Pomology:</b> The direct threat to Biodiversity caused by deforestation - for land use to grow Vegetables (Olericulture) and Fruits (Pomology)			
Relevant Industry Verticals			
[5.1]	[5.1] Meat Alternatives (Pasture Farming)		6.4
[5.2]	[5.2] Animal Health Products / Supply Chain Auditing Tech / Other (Pasture Farming)		2.4
[5.3]	[5.3] Precision Farming (Yield Improvement)	2.4	2.3
[5.4]	[5.4] Fertilizer / Pesticide Substitutes		15.3
[5.5]	[5.5] Vertical Farming - Equipment Suppliers		2.4
[5.6]	[5.6] Vertical Farming - Operators		2.4
[5.7]	[5.7] Olericulture & Pomology - Yield and Storage Solutions	2.3	12.3

In total, this thematic framework surfaces around 1,000 companies that align with at least one of the six themes and their related industry sub-vertical themes and that in turn constitute the strategy's universe.

#### *Environmental Ratings Screen:*

The team then seeks to understand which stocks are environmental leaders and will utilise screens such as the environmental scores of companies to try and unearth new investment ideas. Please note that the team does not screen out stocks solely on the basis of environmental scores given that newer, less mature companies typically have lower scores due to lack of disclosure. Instead, engagement is used as a tool to supplement the team's understanding of these companies' environmental profiles.

#### *Engagement & Company Meetings.*

The team also takes time to meet companies to better understand their businesses and the latter's relevance to biodiversity. They try to meet with senior management, as well as with operational management and the board of directors to get a more rounded and objective view. They will also meet

with other companies within the industry to understand competitors, suppliers and customers, with regular attendance at investment conferences supporting this process.

During these initial meetings with companies, establishing whether effective and sustained engagement is possible is a key component in surfacing potential investment ideas for further analysis. Integrated and collaborative active engagement is a key element of the team's investment process and is used to maximise the impacts that companies deliver. It encourages companies' delivery of their best possible ESG characteristics and positive impacts, whilst supporting the monitoring of progress towards alleviating negative externalities.

### Focus areas

- Deforestation
- Regenerative agriculture
- Nature-based solutions
- Circular economy
- Sustainable oceans



These approaches to idea generation surface a watchlist of around 100 companies that are discussed during regular team meetings when the robustness of the biodiversity and investment theses must be further established in order for consideration for inclusion in the strategy.

### Biodiversity assessment

The team investigates each company's impacts and dependencies on biodiversity. They look to develop a thesis for how a company is having a clear positive impact on biodiversity through reducing biodiversity loss from operations and/or providing solutions to help prevent loss or help restore biodiversity. They also seek to establish whether biodiversity and ecosystem services are relevant to the business and investigate where and how the company is dependent on nature and what risks are associated with these dependencies.

The team will create a detailed biodiversity note, outlining the business, highlighting the biodiversity theme(s) which the company is helping towards and including a detailed explanation of the biodiversity thesis for the company. A final section is also included highlighting areas for engagement with the company that will be discussed with and elaborated by the dedicated engager.

Once the team has gained sufficient comfort of the strength in biodiversity thesis, the company can undergo a more traditional financial assessment.

This is a vital part of the process as it creates a framework that ensures the objective assessment of whether or not a company is defined as a positive impact company, and therefore, eligible for our investment universe.

The team also have a variety of tools at their disposal that help with the assessment of a company's ESG credentials (described in Q2.4), which is complemented by voting and engagement by EOS and the team's dedicated engager.

### **3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?**

Continuously. All stocks are bought on a long-term basis, as the impact and financial opportunity identified in the investment thesis will likely take time to play out. To ensure that downside risk is managed, the team monitors the progress of the company in achieving its goal as part of an important feedback loop. The original impact thesis is also revisited regularly to assess whether the opportunity still exists and to what extent, if at all, the financial impact has changed.

The assumptions driving the valuation forecasts are also reviewed on an ongoing basis and the team member covering a specific holding will constantly monitor news flows on the stock and the industry it operates within.

In addition, we monitor the ESG risks that the portfolio is exposed to, as we believe this is a good risk mitigation exercise; companies that fail to take their responsibilities to the ESG factors seriously are often punished with a substantial fine. In the first instance, we use the proprietary ESG Dashboard along with conversations with our colleagues in EOS to assess individual stocks. At the portfolio level, the Portfolio Snapshot Monitor offers a portfolio-level perspective on ESG exposures. This tool reports on the ESG characteristics of portfolio holdings and highlights companies with potential controversies as well as information captured by EOS. Controversies are managed on a case-by-case basis and we would typically engage with a company prior to taking a decision on divesting.

## ***4. Investment process***

### **4.1. How are the results of the ESG research integrated into portfolio construction?**

The team's approach to portfolio construction is primarily bottom-up since stock selection analysis is of overriding importance in deciding additions to the portfolio. The biodiversity themes support the creation of a framework for generating potential new ideas which have to be validated based on the company specific fundamentals and biodiversity credentials.

A level of macro-analysis is seamlessly embedded within the team's research process however, since, inevitably, an important aspect of the team's research process is to seek to understand the key factors that will influence the longer-term structural opportunities that the company is exposed to. Of particular focus are regulatory changes and potential, emerging biodiversity themes which can either lead to new research ideas or highlight competitive threats that could undermine an existing investment thesis for a stock already held by the team.

The position size of holdings within the portfolio is determined by the conviction levels that the team has in individual stocks and the absolute risks associated with them. The size of individual positions will be managed actively so that no single stock dominates the portfolio's overall risk budget. Stock weights will be adjusted depending on risk, with less mature, smaller companies held at smaller weights (1-1.5%), whilst the typical maximum position size will be 5% of the portfolio. Good levels of portfolio diversification across common risk factors are sought, including diversification by biodiversity impact themes.

### **4.2. How are the criteria specific to climate change integrated into portfolio construction?**

Given the focus of the investment strategy is on averting the loss of and restoring biodiversity, climate change is a feature of all themes and, therefore, all holdings in the portfolio. Please refer to the previous question and also question 3.4 for details of how the team incorporates climate change risks.

**4.3. How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?**

Not applicable. 100% of the portfolio undergoes an ESG analysis.

**4.4. Has the ESG evaluation or investment process changed in the last 12 months?**

No, neither the ESG evaluation process nor investment process have changed within the last 12 months.

**4.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?**

Yes. The protection of biodiversity and ecosystems services is imperative for the health of society and global economies and a responsible approach to investing can and must play a role in achieving that protection.

**4.6. Does (do) the fund(s) engage in securities lending activities?**

The fund does not engage in securities lending activities.

**4.7. Does (do) the fund(s) use derivative instruments?**

The fund does not use derivatives.

**4.8. Does (do) the fund(s) invest in mutual funds?**

The fund does not invest in mutual funds.

## **5. ESG controls**

**5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?5**

Our Investment Office, which has an independent reporting line to the CEO, acts in clients' interests by ensuring that investment teams stay true to their processes and by addressing any loss of alpha. It has overall responsibility for the consistency of performance across all teams. In particular, it runs a

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5 Reference to Article 173 of the French TECV Act

monthly Portfolio Review Committee (PRC), with members of the Senior Management Group, that reviews performance and risk, including engagement and the quality of each fund's ESG and engagement integration.

Our Responsibility Office, which also reports into the CEO and works in close partnership with the Investment Office, reports at least quarterly to ExCo in order to receive instruction on particular decisions, as well as providing progress updates on the comprehensive Responsibility plan that we have developed.

Progress on ESG and engagement integration is communicated to, and discussed by, the board on a regular basis. It forms part of the CEO's report each board meeting, and the Head of Responsibility provides regular updates. There are also specific items of discussion at board level, for example the approach to, and disclosure of, executive remuneration at the firm. Any pertinent stewardship activity is communicated to the board in advance for its consideration. The board itself reports on progress in engagement and ESG integration in the annual report. Additionally, the board receives weekly news and quarterly and annual client reports on stewardship progress and activity. Responsibility also forms part of a new board member's induction process.

Each of our investment teams has their fund-specific approach to ESG and engagement integration, which takes account of their particular strategy, investment universe and investment approach. Through the use of our proprietary Portfolio Snapshot we are able to observe the aggregate ESG risk across our portfolios in both absolute and benchmark-relative terms, subject to the availability of data and company disclosures. Investment teams are able to break these measures down into the constituent environmental, social or governance risks and view the ESG metrics for each portfolio company with the best and worst performers identified.

Further, we track the engagement being carried out to address the material ESG and other risks identified, and the progress made. As an example, this portfolio-level view enables investment managers and the Responsibility Office to be aware of the estimated level of carbon in their portfolios, including which investments are the largest contributors to a portfolio's carbon footprint. The Carbon Tool provides portfolio managers, as well as the Responsibility Office, with not only an overview of the funds' carbon risks, but also the engagement work that is being conducted by EOS and the investment teams to mitigate the carbon risks that are inherent in a fund. This is done by tracking the environmental engagements conducted by EOS. An understanding of the exposure to carbon risks and the associated engagement work to mitigate those risks provides a good starting point to assess the best investment and engagement choices to manage this risk in the context of a portfolio's particular performance and risk objectives as agreed with the client. Progress by each investment team is formally reviewed by the Responsibility Office on a quarterly basis and by the Portfolio Review Committee twice yearly.

The Responsibility Office has also developed 'responsibility accountabilities' for each of the business areas, which are reviewed on at least an annual basis. Recommended actions are agreed with the teams and tracked to ensure progress. The findings from the review are shared with the RWG and ExCo.

## *6. Impact measures and ESG reporting*



### **6.1. How is the ESG quality of the fund(s) assessed?**

The team has created a proprietary Impact Database, which enables us to quantify the impact of companies held within our portfolio. The Database also provides a clear framework for us to assess companies on our watchlist. Assessing the impact of companies at such a granular level with quantifiable outcomes allows us to achieve two important objectives. First, it allows us as investors to trace and account for each investment, providing a means through which we can monitor a company and ensure its impact intentionality as a business. Secondly, it provides our clients with a quantifiable indication of how their capital allocation is helping achieve positive impact, as aligned to the UN Sustainable Development Goals. The end result means we are able to report to our clients on the overall impact of our portfolio, as well as the impact of individual holdings.

### **6.2. What ESG indicators are used by the fund(s)?<sup>6</sup>**

The team have carefully selected a number of impact metrics that they have grouped into relevant themes. These metrics capture the impact provided by each company's products and services and break down into the following two categories:

- Operations-based metrics that relate to a company's operations. Examples include impact data such as scope 1 and scope 2 carbon emissions or waste produced in operations.
- Solutions-based metrics that relate to the specific outcomes that a company is looking to provide. For example, the impact of a company looking to decarbonise heavy-duty motive might be measured by looking at the carbon emissions avoided through use of the company's technology (CO2 MT).

In general, operations-based metrics are relevant for all companies held and are often dependent on some level of company disclosure whilst solution-based metrics differ in that they are company specific; i.e., since every company is unique, a thorough understanding of business models is required to accurately appraise impact.

### **6.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?**

Reporting is an important aspect of biodiversity as it allows investors to monitor the delivery of impact solutions and monitor any issue with negative externalities or unintended negative impacts that may arise. Reporting brings rigour and integrity to the investment process.

Our reporting will emphasise both quantitative and qualitative aspects of delivering impact, with a mélange of data at the portfolio, theme and company level and case studies of specific companies. On a quarterly basis we will produce a report which displays the thematic breakdown of the fund, insights into a relevant theme and case studies that give details of the investment and impact case of a few holdings.

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<sup>6</sup> Reference to Article 173 of the French TECV Act

On an annual basis we would also report impact metrics for the fund. Impact measurement is conducted by the team as their ongoing assessment of each company. The impact metrics that are employed for each company will vary depending on their industry, products and operations. Our aim is to use the most relevant metrics to assess a company's impact, with these metrics categorised as either 'operations-based' or 'solutions-based'. Assessing the impact of companies in such depth means we can provide our clients with a clear view of the positive impact their investment is helping achieve.

**6.4. Does the fund management company publish the results of its voting and engagement policies?<sup>7</sup>**

As mentioned above, EOS produces quarterly public engagement reports, which are distributed to clients and available to view on our website. These reports give a detailed insight and analysis of the stewardship activities undertaken by EOS during the previous quarter, including their results. We also publish on an annual basis details of voting activity.

Engagement Report: <https://www.hermes-investment.com/ukw/eos-insight/eos/public-engagement-report-q1-2021/>

[Sustainability-related Disclosures \(hermes-investment.com\)](https://www.hermes-investment.com/sustainability-related-disclosures)

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<sup>7</sup> Reference to Article 173 of the French TECV Act and the HLEG recommendations on GOVERNANCE